

1 of 1 DOCUMENT

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HEADLINE: BMO raises trading loss to \$680 million; Probing 'potential irregularities'. Says it has increased concerns with reliability of quotes from principal broker

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Bank of Montreal's estimated losses from bad natural-gas trades soared to \$680 million yesterday as the bank said it is investigating "potential trading irregularities."

BMO's revised estimate pegs the losses more than 50-per-cent higher than was first indicated by the bank last month of between \$350 million and \$450 million. The bank also said there could yet be "subsequent significant gains and losses" related to the portfolio.

Pre-tax first-quarter earnings will now be revised downward by \$509 million with the remainder of the adjustment to be included in the second-quarter results due May 23.

The bank now expects a loss of \$680 million, or 64 cents a share, compared with as much as \$450 million, or up to 55 cents a share, it previously disclosed in late April.

BMO also said it has terminated two employees in connection with the losses.

"Since our initial announcement on April 27, BMO and our external advisers have continued to investigate this matter," said BMO chief executive Bill Downe. "This had provided additional insight into the current circumstances."

The bank engaged forensic auditors Deloitte and Touche LLP in February to investigate its natural-gas trading portfolio. In a report to BMO in mid-April, the auditors questioned the valuations provided by BMO's broker, New York-based Optionable Inc.

BMO said it has "increased concerns with the reliability of quotes received from its principal broker."

The bank also confirmed that it has suspended its business with Optionable, which previously received 30 per cent of its revenues directly from BMO. The brokerage has plummeted into crisis since BMO's initial announcement about the losses. Both the chairman and chief executive of Optionable have resigned in the past two weeks.

Optionable is now also the subject of class-action lawsuits filed on behalf of shareholders who allege wrongdoing at the brokerage.

BMO said it is continuing its investigation of "the facts and circumstances surrounding these mark-to-market commodities trading losses, including a review to determine whether any potential irregularities in trading and valuation took place."

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